The Value of Everything: Making and Taking in the Global Economy
(Mariana Mazzucato)

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I have long known in my gut that usual measures of social wealth, most of all GDP, are fraudulent, in that they falsely identify value where there is none. I have intuited we were all being lied to, and that those who assured us that ever more value was being generated by our society by what appear to be objectively valueless activities were, at best, hiding something. This outstanding book, by left-wing economist Mariana Mazzucato, explains what is being hidden, what hard truths are being avoided, and what she thinks we should do about it. And while I don't agree with all her prescriptions, or with her rosy view of government competency, the first step on the path to self-improvement is admitting you have a problem.

Others have tried to explain the corruption of the modern economy, such as Rana Foroohar in her dreadful *Makers and Takers,* but Mazzucato succeeds where they failed. Her core claim is that "much of what is passing for value creation is just value extraction in disguise." What is value is the heart of this book, along with who creates value. And if value is defined not just as bargained-for exchange, it alters who and what can and should be viewed as productive of value.

Most of all, this book is an attack on the financial industry as extractive and unproductive, something I have also long believed but could not precisely say why, even though I have a lot of direct experience with that industry. Since the financial industry has hoodwinked and bribed much of the world, especially conservatives, into thinking it is a key component of economic growth, and that attacks on it are attacks on the free market and on apple pie, this is a heresy. But a heresy that is also an essential truth.

No surprise, Mazzucato begins by explaining value. "At its heart it is the production of new goods and services." This is obvious, in a way, but frequently overlooked, ignored, or distorted. In my usual thought experiment, twenty people sitting around on the savanna who do nothing at all except eat and drink what is at hand produce no value. Mazzucato adds the qualifier that not all value, which for her is functionally the same thing as wealth, is net positive, because of externalities. A factory that produces new goods but pollutes creates less net value than if it did not pollute. Similarly, a Gender Studies or Latino Studies professor pollutes society and creates negative net social value, though that's not an example Mazzucato gives. Conversely, value extraction is "activities focused on moving around existing resources and outputs, and gaining disproportionately from the ensuing trade."

Thus, determining what is a productive activity is the key to understanding value. In the modern era, since the late eighteenth century, variations on defining the "production boundary" have been used to make this determination. Activities inside the boundary create wealth; activities outside extract it. Today, economic orthodoxy views the production boundary as encompassing all bargained-for exchanges. If a price is paid, value exists. Mazzucato rejects this, holding that some prices paid result in unearned income not representing value creation, a throwback concept, and that some activities currently viewed as creating value actually destroy value.

The first third of the book is a history of economic value. This is a quintessentially modern debate; until the late seventeenth century, economic value was essentially a moral question, revolving around virtuous behavior and contribution to the common good. With the changes wrought by the discovery of the New World, in particular the massive influx of metals, threads of abstract economic thought began to crop up, initially of the mercantilist sort—roughly, the idea that the more metals a country retained, the better. And to measure whether a country was advancing or retreating, the concept of national income was born. William Petty, surveyor to Oliver Cromwell and secretary to Thomas Hobbes, had the insight that viewing each country as a closed system, income and expenditure aggregated the same (ignoring savings), and thus if he could estimate national expenditure, he could estimate national income. He set the production boundary (although he didn't call it that) to include in national income only production of necessities, such as food and clothing. What is inside and what is outside the production boundary is the core determination for all future calculations of national income—or, as we call it now, more or less, gross domestic product.

The next major thrusts in this area were made by the Physiocrats during the reign of Louis XV, in the mid-eighteenth century. For them, only the primary sector, mostly agriculture but also activities such as mining, was productive. All other activities, including industrial transformations, merchant activities, and of course government, were outside the production boundary. Soon enough, along came the classical economists: Adam Smith and David Ricardo, along with Karl Marx, who are all three here (and not often elsewhere) lumped together, as deriving value, and therefore national income, primarily from labor itself (along with other direct costs of production), not from the focus of the labor. Smith set the production boundary to include any activity involved in production, because it creates value, and to exclude services (lawyers and the like) and government (as well as household production), which do not create value, but live off the surplus created by others. For Smith, using generated wealth to produce more was the key to national growth and success. (This would avoid the example of Spain, which under mercantilist theory should have been in great shape because of the enormous amounts of metals it absorbed, but it did not become more productive, and so sank back into poverty.) Rents, that is transfers of value to those who hold a monopoly on a scarce asset, most obviously land but not at all limited to that, were also unproductive.

Ricardo further developed the theory of rents. As the population grew and assets such as land became relatively scarcer, Ricardo saw rents rising and economic stagnation resulting. Here we see telegraphed Mazzucato's theme that most of the modern finance industry is not productive, but a seeker of, and gorger upon, rents. For Ricardo, consumption to allow more economic activity, as by industrialists, was good consumption; consumption of frippery was bad consumption. Ricardo, however, included services within the production boundary, as long as they were part of productive processes. Government services were, though, by definition unproductive (true, Ricardo was focused on war spending, and ignored activities such as infrastructure spending).

Marx followed Ricardo in seeing labor as the source of value, but differed in seeing the extraction of surplus value from workers as the key engine of the modern industrial economy (and also the creator of alienation in the workers). Marx included "circulation" within the production boundary—that is, certain activities, including some merchants and some finance, that were needed for productive industry to realize profits. Surplus value that would otherwise be absorbed by production capitalists goes to circulation capitalists—but they also create surplus value, by making activities possible for the production capitalists that would not otherwise be possible. Amazon is an example, as are certain elements of finance—but not lending, "interest-bearing capital." Thus, anything that created surplus value was within the production boundary. Other aspects, along with government and with household production, were as usual outside the production boundary. Along the same lines, rents were seen as merely redistributing value, not creating it, and were outside the production boundary—they were also merely claims on surplus value created by labor.

In the late nineteenth century, and into the twentieth, the concepts of value developed by classical economics went by the wayside with the rise of the neoclassical economists, such as Alfred Marshall, who developed the marginalist theory of value. They held, and it is nearly universally held today, that people buy goods or services based on their subjective estimation of utility at the margin to the buyer, and therefore the only value of a good or service is whether and what someone is willing to pay for it. Of course, as Mazzucato points out, this means that total value production in a national economy is now purely subjective, and that measures of productivity now fluctuate with prices. Even more perniciously, this theory means that someone who is unemployed is merely choosing leisure over value, by preferring the utility of leisure to whatever work may be available. This also implies that to maximize national value any barriers to trade must be removed, such that everyone can get what he deserves based on his marginal production. Government's role is only to remove market failures (and that only if it can be proven government will not be a worse cure than the disease, according to James Buchanan's public choice theory), since by definition the totally free and frictionless market will provide optimal outcomes. Finally, it implies that rents in the old sense, of a monopoly on something such as land or capital, are no longer viewed with distaste; they are merely part of an individual's utility maximizing, and income from rents is now viewed as inside the production boundary, whether derived from land or capital.

Therefore, nearly every purchase transaction is included within today's "comprehensive boundary." Under this new view of things, anything that fetches a price is included in national income, GDP. Mazzucato goes into great detail about the modern calculation of GDP, something that I have long failed to understand, but which she makes accessible, though even with her explanations it's still mushy and confusing, in its nature, not due to any failure of the author. The accounting calculations are very complex and frequently shifting, done pursuant to something of which you have never heard, the "United Nations' System of National Accounts," the SNA. It attempts to calculate GDP as "the amount of value added by production." National production equals national income equals national expenditure. In theory, at least—but Mazzucato says much of this is ad hoc, such as the switch in 2008 from ignoring research and development to including it in GDP, which magically added 2.5 percent to United States GDP with no actual change in the economy. And anything that does not fetch a price, such as household work, is not part of GDP—but six percent of GDP is rent imputed to homeowners, again with the ad hoc judgment calls. Government spending is included in GDP only for amounts government spends as an actor, excluding transfer payments such as pensions and unemployment benefits (which show up in GDP as part of household spending). Government is ignored in calculations of production, something to which, again, Mazzucato objects, since she views government as very often a value creator.

The explanations here don't answer some of my questions, though. Where does money borrowed from the Chinese show up? Given the level of foreign debt we incur, national expenditure would seem to grossly exceed national production and national income. Or is the debt transferred to national income and national "production" by government spending? But how can debt be considered production? Or, to take another question that fascinates me, how about California? We are always told how big California's economy is, how important it is to our country, how it "contributes" so much to national value. We are told if California were independent it would be the world's fifth-largest economy. We are, of course, told these things to suggest that being run by people on the far left, woker than woke, is totally compatible with economic success, and that "red" states are parasites upon the awesome success of California and New York.

I went exploring, to determine what it is that makes up California's GDP, through statistics provided by the Bureau of Economic Affairs. The vast majority is things that do not, according to Mazzucato, actually result from the creation of value. Forty-seven percent is FIRE (finance, insurance, real estate), "professional and business services," or "information." Twelve percent is manufacturing. Eleven percent is "government and government enterprises." Ten percent is education and social services. Wholesale and retail trade is eleven percent. And collectively, agriculture, construction, transportation, utilities, and mining are thirteen percent. Thus, what normal people regard colloquially as productive, manufacturing and other forms of real new value creation, is around twenty-five percent of the total. Maybe thirty-five percent, if you optimistically include part of education, "information" and "business services," though the latter is probably mostly transactions costs such as lawyers imposed by the government and plaintiff's lawyers engaging in legal extortion. But then, from that maximum of thirty-five percent you have to take away what is really not part of California at all. For example, it appears that any corporation headquartered in California has any capital investments included in California GDP, regardless of where the investment takes place. Along similar lines, presumably "information" includes revenue Google obtains from selling advertising, facilitating transactions that occur mostly totally outside California, and revenue derived from server farms, mostly located outside California. (If calculating GDP by the production method, are all iPhones produced attributed to California's GDP? I'm not sure.) And so forth, suggesting that much of what appears as value in substantive categories is really not at all attributable to California—it is either fictional, not value at all, or tied to California merely by accounting convention. In other words, as Kurt Schlichter preaches in his "Split" novels, there is no there there, and California would merely collapse like the house in Poltergeist, or Venezuela, if it were severed from the rest of the country, because what passes for value in its GDP is mostly not value at all.

Mazzucato's history is warmup to her main application of an accurate value framework—objecting to the finance industry's "output" being included in GDP at all. Until the 1970s, interest charged by the financial sector (FIRE, more or less) was excluded from GDP as unproductive and mere transfer of value from one hand to the other; only fees for services were included. The financial sector was very small relative both to its size now and to the economy and most of its income came from charging interest. Yet in the 1970s all financial activities were redefined and recategorized as productive "financial intermediation" and included in GDP, which is a logical consequence of the marginal utility theory of productivity, but makes little objective sense. Mazzucato covers this history at length, including discussions of money creation, Hyman Minsky, consumer debt, and much more. She also discusses the problems this view creates, such as that rising interest payments due to rising debt are illogically and damagingly counted as increases in national production.

In her view, and she convinced me (not that I needed much convincing), almost all of what the financial sector does today is value extraction, not value production, which was, after all, the universal view until only a few decades ago. Inexorably, she also covers in detail the nature and mechanics of that value extraction, along with the oligopoly and manipulation of government by actors such as Goldman Sachs that makes that extraction and its massive, ongoing expansion over past decades possible. (When I come to power, among the first things I will do is utterly smash Goldman Sachs, including confiscating from its malefactors, past and present, the wealth gained from participation in its many crimes, such as the 2008 bailouts of the lords of finance at the expense of the rest of America, and forbidding any participation in any level of government by any person who has ever worked for Goldman Sachs.) She also covers the downstream effects, such as the financialization of the real economy, including the practice of share buybacks, executive pay, shareholder value versus stakeholder value, private equity and its pluses and minuses, sharply reduced investment by businesses, and similar topics, all with the underlying theme that business has largely shifted to emphasize value extraction, for reasons closely tied to the dominance of finance, now bizarrely perceived by many as a pillar of our economy.

On a side note, it occurs to me that if Mazzucato is right that financial intermediation is a fictive creator of value, those countries in the Middle East, especially Dubai, striving to become "financial centers" in preparation for the inevitable day the oil runs out will be sorely disappointed.

I predict that in a hundred years Dubai will be back to pearl diving as its main industry, assuming it's not just the deserted shells of broken skyscrapers, swept by gusts of dry wind bearing radioactive sand.

Mazzucato's dissection of the financial sector is the second third of the book. The final third is about government and its role in creating value (I think much of this is a summary of an earlier book of hers, *The Entrepreneurial State*). She begins by evaluating the "innovation economy," noting that in it many risks "are socialized, while rewards are privatized," which is rent-seeking, which is value extraction, not creation. (This is a well-known and irrefutable claim about the finance industry, of course, but here she is talking primarily about tech and drug companies.) She notes, reaching backward to Bell Labs and forward to DARPA, that government investment has always been the backbone of much American innovation, and that venture capitalists, especially lauded pioneers such as Kleiner Perkins, made their money from timing their entry to be after government takes the initial risks. She talks about how drugs are priced on what people will pay, a classic implementation of marginal value theory, and denies that R&D spending on new drugs is a significant part of what drug companies do, relative to marketing, share buybacks, and spending on "me-too" drugs, which is why drug companies want to disconnect price from value. Similarly, the monopoly (or oligopoly) position of tech companies such as Google and Facebook allows them to extract value (aside from other pernicious effects), even though their technology is mostly based on government-funded science. But they mostly don't provide value; Google's revenue is nearly all from advertising, which is included in national accounts, but shouldn't be, since it does not actually create value, except in the fantasy world of the neoclassical economists.

Government funding makes everything from Google to Tesla possible, yet resulting gains go purely to private investors. At best government gets back loans it is has made; it (that is, we) get no returns on investment, and lump it when debts go bad. For Mazzucato, government can create value at least as much, and probably more, than private entities, yet is ignored both philosophically and in calculations of value, distorting both our view of things and our understanding of what is necessary for future real growth. In essence, although she doesn't use the words, Mazzucato is calling for an industrial policy, in which government is perceived as a value creator, not only funding basic research, but profiting from its success.

I generally agree this has quite a bit of appeal. Certainly, socializing risks and privatizing gains is stupid, especially when those gains go not to successful competitors, but to successful rent seekers. I'm not as optimistic as Mazzucato about the competency of government. She ignores that government is often stupid and corrupt. She thinks any spending on education is good. She says England's NHS is a wonderful "national treasure." Yet when my cousin's son in England experienced crippling stomach pains while losing weight and being unable to attend school, it took him more than a year to get a simple diagnostic endoscopy, whereas he would have had one within twenty-four hours in the United States. (Fortunately, he did not have cancer, although the NHS staff informed his mother that if he did, and died as a result of delayed treatment, "that's just the way the system works." Then they threatened her that if she dared to seek any form of supplemental private diagnosis or treatment, they would refuse to see or treat her son at all, ever.) Mazzucato offers no evidence at all that the modern American government, a bloated nightmare of overpaid leftist bureaucrats, mostly fat and woke, could duplicate the success of 1950s government funding of successful innovations. It's a nice dream, but it's time to wake up. If government is going to add value, we're first going to have to dismantle the administrative state and then replace the ruling class with a virtuous ruling class, from which competent bureaucrats can be drawn. Although, to be sure, woke capitalism is also falling down on innovation, and it will also have to be taken in hand. It's stupidity and cupidity all around nowadays.

Plus, Mazzucato's recommended industrial policy is focused not on increasing production or value, but on "green technology," which is essentially an oxymoron and the lipstick put on the pig of corruption (see, e.g., Solyndra and many other "investments" made under the Obama administration). Thus, Mazzucato ends weakly, calling for a "green revolution" that "will require deliberate and conscious changes in social values: a redirection of the entire economy, transforming production, distribution and consumption in all sectors." What this has to do with the rest of her book is nothing. She should have quit while she was ahead. Still, this is by far the best book on the topic of economic value I have ever read, and it has hugely improved my own thinking on the topic, fueling my belief that the current system is impossible to reform, and will require brutal reworking, and at least a step backwards, to move forwards.